

Message Text

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SUBJECT: EC AIRCRAFT POLICY - THE SPINELLI PAPER

REFS: ROME 18948, STATE 286886, PARIS 27437, EC BRUSSELS 9195,
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1. BEGIN SUMMARY. ALTHOUGH EC COMMISSION OFFICIALS WORKING ON AIRCRAFT POLICY WOULD LIKE TO SEE EC COUNCIL DISCUSSION OF THE EC COMMISSION PROPOSAL FOR AN AIRCRAFT POLICY BEGIN AS EARLY AS JANUARY, CONTACTS IN THE COUNCIL SAY THAT THE COUNCIL WILL NOT ADDRESS THE SUBJECT UNTIL THE PARLIAMENT DEBATES IT IN MARCH OR APRIL. THE PROPOSED EC COUNCIL DECISION MAY BE FRAMED AROUND THE "PRINCIPLE" OF ESTABLISHING A COMMON PROGRAM, BUT THE MEMBER STATES WILL BE DEBATING SPECIFIC AIRCRAFT PROJECTS AND THEIR FINANCING WHILE LOOKING TO SHORT-RANGE SOLUTIONS TO PROBLEMS IN THEIR RESPECTIVE AIRCRAFT INDUSTRIES. COMMISSION OFFICIALS WORKING ON AIRCRAFT POLICY HAVE SERIOUS PROBLEMS WITH COOPERATION BETWEEN US AND EC FIRMS BUT ARE NOT AGAINST US FIRMS PARTICIPATING IN PROJECTS WHICH ARE PART OF A COMMON EC PROGRAM. THEY ENVISION
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EC SUBSIDIES FOR R AND D. SUPPORT FOR PRODUCTION (E.G., TOOLING)

WOULD BE IN THE FORM OF LOANS. MARKETING WOULD BE SUPPORTED BY AN EC EXPORT CREDIT SYSTEM FOR AIRCRAFT. IT IS STILL TOO EARLY TO OBTAIN A CLEAR READING ON MEMBER STATE POSITIONS OR EVEN AN OUTLINE OF THE LIKELY DEBATE ON THE EC AIRCRAFT POLICY HERE IN BRUSSELS. POSTS IN EC CAPITALS MAY HAVE SOME INSIGHTS INTO MEMBER STATE THINKING. END SUMMARY.

2. THE MISSION MET ON DEC 8 WITH ERNESTO PREVIDI, THE EC COMMISSION DIVISION CHIEF FOR AEROSPACE IN THE DIRECTORATE GENERAL FOR INDUSTRY, TO DISCUSS THE COMMISSION'S PROPOSALS FOR AN EC AIRCRAFT POLICY (SEE REFTELS 4 AND 5). THE MISSION MADE THE POINTS CONTAINED IN REFTEL 2. (WE FOUND VERY USEFUL THE BACKGROUND IN REFTEL 1 ON THE OPINIONS OF ITALIAN AIRCRAFT INDUSTRY OFFICIALS.)

3. OUR FIRST LINE OF INQUIRY COVERED THE STATUS OF THE PROPOSAL AND THE REACTIONS TO IT OF THE MEMBER STATES. PREVIDI SAID THAT THE COMMISSION HOPED THAT THE COMMITTEE OF PERMANENT REPRESENTATIVES (COREPER) COULD HAVE AN INITIAL PROCEDURAL DISCUSSION OF THE PROPOSAL IN JANUARY AT WHICH TIME IT WOULD SET UP THE EC COUNCIL WORKING GROUP OR GROUPS NECESSARY TO DEAL WITH VARIOUS ASPECTS OF THE PROPOSAL. SUCH A MEETING COULD TAKE PLACE BEFORE THE EC ECONOMIC AND SOCIAL COMMITTEE AND EUROPEAN PARLIAMENT DELIVERED THEIR RESPECTIVE OPINIONS. HOWEVER, A CONTACT IN THE COUNCIL SECRETARIAT SAID COUNCIL CONSIDERATION WOULD HAVE TO AWAIT THE MAJOR DEBATE ON THE SUBJECT EXPECTED IN THE EUROPEAN PARLIAMENT WHICH HE SAID WOULD NOT TAKE PLACE UNTIL MARCH OR APRIL.

4. PREVIDI BELIEVES THE COUNCIL'S (COREPER, WORKING GROUP) APPROACH TO THE PROPOSAL WOULD BE PRAGMATIC. IT WOULD FOCUS ON POINTS A) AND B) OF ARTICLE 1 OF THE DRAFT EC COUNCIL DECISION AND ATTEMPT TO WORK OUT WHAT WOULD GO INTO A COMMON PROGRAM (I.E., CHOOSE SEVERAL SPECIFIC AIRCRAFT PROJECTS THAT WOULD MAKE UP THE COMMON PROGRAM). IT WOULD THEN DETERMINE WHAT FINANCING WOULD BE INVOLVED TO PURSUE SUCH A COMMON PROGRAM. PREVIDI SAID THAT A COMMON PROGRAM FOR RESEARCH, EC SUPPORT FOR MARKETING (AN EC EXPORT CREDIT SYSTEM FOR AIRCRAFT) AND OTHER ASPECTS OF THE PROPOSAL OF A BROADER NATURE WOULD PROBABLY COME LATER.

5. PREVIDI'S ASSESSMENT OF THE REACTIONS TO THE COMMISSION LIMITED OFFICIAL USE

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PROPOSAL WERE:

A) THE EUROPEAN AIRFRAME MANUFACTURERS SUPPORT A EUROPEAN AIRCRAFT POLICY, ALTHOUGH DASSAULT IS MORE INTERESTED IN COOPERATION WITH DOUGLAS (SEE REFTEL 3), AND THE ITALIAN INDUSTRY HAS ARRANGEMENTS WITH BOEING, (A BRITISH CONTACT STRESSED THE IMPORTANCE ROLLS-ROYCE ATTACHES TO ITS ARRANGEMENTS WITH PRATT AND WHITNEY);

B) THE UNIONS SUPPORT THE COMMISSION PROPOSAL;

C) THE REACTION OF GOVERNMENTS ARE NOT YET CLEAR BECAUSE THEIR RESPECTIVE AIRCRAFT POLICIES, WITH THE EXCEPTION OF GERMANY, HAVE NOT BEEN FORMULATED. (ACCORDING TO PREVIOUS, THE GERMAN GOVERNMENT IS RECOMMENDING TO PARLIAMENT A PLAN CALLING FOR CONTINUED GOVERNMENT SUPPORT FOR GERMAN INDUSTRY PARTICIPATION IN THE AIRBUS FAMILY OF PLANES AND THE MRCA MILITARY FIGHTER. THE FINANCIAL TIMES OF JAN 9 HAS A STORY ON THE GERMAN POLICY.) THE GERMANS ARE NOT ENTHUSIASTIC ABOUT PARTS OF THE COMMISSION'S PROPOSAL BECAUSE OF THEIR GENERAL RELUCTANCE TO INCREASE THE EC BUDGET, BUT ARE APPROACHING IT PRUDENTLY AND ARE WILLING TO SEE WHAT THE PROGRAM WILL LOOK LIKE AND WHAT IT IS LIKELY TO COST. THE FRENCH GOVERNMENT IS GETTING PRESSURE FROM TWO LOBBIES, DASSAULT AND SNECMA, SUPPORTING US-FRENCH COOPERATION AND FROM AEROSPATIALE AND OTHER INVOLVED IN THE AIRBUS PROGRAM ADVOCATING AN EC APPROACH. THE BRITISH, WHILE PREOCCUPIED WITH THE PROBLEM OF THE NATIONALIZATION OF THEIR AIRCRAFT INDUSTRY ARE VERY FAVORABLE TO DISCUSSING THE COMMISSION'S PROPOSALS AND CAN BE EXPECTED TO TAKE A PRAGMATIC APPROACH.

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6. PREVIDI WAS STRAIGHTFORWARD REGARDING JOINT VENTURES BETWEEN US AND EC AIRCRAFT FIRMS (E.G., AERITALIA-BOEING, DASSAULT-DOUGLAS OR LOCKHEED) -- HE (AND HIS BOSS CHRISTOPHER LAYTON) DOES NOT RPT NOT LIKE THEM. THERE ARE THREE SERIOUS PROBLEMS WITH SUCH ARRANGEMENTS. FIRST, PREVIDI ASSUMES THAT OVER THE LONG RUN THE PRESUMABLY WEAKER EUROPEAN PARTNER WILL LOSE IT CAPACITY TO FORMULATE AND DEVELOP AN AIRCRAFT PROJECT INDEPENDENTLY AND THUS WEAKEN EUROPE'S INDUSTRIAL CAPABILITIES. SECOND, TRANS-ATLANTIC COOPERATION TAKES AWAY NEEDED FINANCING FROM EUROPEAN PROGRAMS. THIRD, INDIVIDUAL EUROPEAN FIRMS NEGOTIATING ARRANGEMENTS WITH US FIRMS DO NOT HAVE THE INTEREST OR POWER TO DEMAND THAT THEIR AMERICAN PARTNERS REFRAIN FROM BUILDING PLANES THAT COMPETE WITH OTHER "EUROPEAN" AIRCRAFT.

7. PREVIDI SAID THAT THE COMMISSION IS NOT ARGUING THAT TRANS-ATLANTIC PROJECTS ARE OUT OF THE QUESTION OR TO BE PUT OFF UNTIL THE DAY WHEN THE EUROPEAN AIRCRAFT INDUSTRY IS STRONG ENOUGH TO MEET THE US FIRMS AS EQUALS -- EUROPE IS FAIRLY CONFIDENT ABOUT ITS ABILITIES IN THE AIR CRAFT SECTOR. WHAT IS NEEDED IS A GLOBAL APPROACH. EUROPE SHOULD FIRST ESTABLISH A COMMON PROGRAM FOR A LIMITED OFFICIAL USE

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SERIES OF AIRCRAFT AND THEN NEGOTIATE WITH US AIRCRAFT FIRMS FOR COOPERATIVE ARRANGEMENTS ON SOME, BUT NOT ALL, AIRCRAFT PROJECTS. WE INTERPRET THIS TO MEAN THAT DASSAULT COULD, FOR EXAMPLE, BE AUTHORIZED BY THE COMMISSION (OR COUNCIL) TO DEVELOP A JOINT PROGRAM WITH DOUGLAS, FOR THE MERCURE 200, BUT, BEING A PART OF A COMMON EUROPEAN PROGRAM, DASSAULT WOULD HAVE TO GET A COMMITMENT FROM DOUGLAS NOT TO BUILD A PLANE TO COMPETE WITH THE AIRBUS B-10. (THERE ARE INTERESTING ANTI-TRUST IMPLICATIONS IN THIS IDEA.) PREVIDI, HOWEVER, SAW NO ROOM FOR US AIRFRAME COMPANIES IN THE AIRBUS FAMILY IDEA. THERE IS NEW OPTIMISM IN TOULOUSE AND THE EUROPEANS THINK THEY HAVE A GOOD THING GOING HERE AND DO NOT WISH TO CUT ANYONE ELSE IN.

8. REGARDING SUBSIDIES, PREVIDI SAID THAT THE COMMISSION BELIEVES A PART OF THE COMMON PROGRAM WOULD HAVE THE EC FINANCE A PART OF R AND D COSTS FOR JOINT PROJECTS. HE DID NOT THINK IT APPROPRIATE FOR THE EC TO SUBSIDIZE PRODUCTION BUT DID NOT RULE OUT EC FINANCING THROUGH EUROPEAN DEVELOPMENT BANK LOANS, OR POSSIBLE ASSISTANCE FROM THE EC REGIONAL OR SOCIAL FUND IF THERE WAS A LEGITIMATE CLAIM FOR EC AID UNDER THE GUIDELINES FOR THOSE FUNDS. HE ALSO MENTIONED EC PARTICIPATION ON PROJECTS WHICH WOULD BE PAID BACK FROM SALES AS IS THE CASE FOR THE F.27 IN THE NETHERLANDS. MARKETING SUPPORT WOULD COME FROM AN EXPORT CREDIT BANK FOR AIRCRAFT OFFERING RATES AS GOOD AS THE US-EXIM BANK. PREVIDI SAID THE EC EXPORT CREDIT BANK SCHEME HAD LITTLE SUPPORT BUT HE THOUGHT THAT IT MIGHT BE POSSIBLE TO SET UP SOMETHING FOR AIRCRAFT.

9. COMMENT. UNTIL EC COUNCIL WORKING GROUPS BEGIN TO DISCUSS THE AIRCRAFT POLICY, IT IS DIFFICULT HERE IN BRUSSELS TO GET A READING ON HOW THE DEBATE ON THE EC AIRCRAFT POLICY WILL BE SHAPED. CONTACTS IN THE BRITISH, FRENCH AND GERMAN PERMANENT REPRESENTATIONS ARE NOT YET CLEAR ABOUT THINKING IN THEIR CAPITALS. OUR FEELING IS THAT THERE WILL BE A LOT OF HORSE TRADING TO GET COMMUNITY SUPPORT FOR SPECIFIC PROJECTS, WITH THE FRENCH AND GERMANS TRYING TO OBTAIN COMMITMENTS FROM THE OTHERS TO BUY THE AIRBUS. ANOTHER THEME WILL BE THE DEGREE OF COMMUNITY INTERFERENCE THAT WILL BE TOLERATED ON JOINT PROJECTS BETWEEN US AND EC FIRMS. POSTS IN EC CAPITALS, PARTICULARLY THOSE WITH AN AIRCRAFT INDUSTRY, MAY WISH TO REPORT ON INDUSTRY AND GOVERNMENT ATTITUDES TOWARDS THE COMMISSION'S PROPOSALS. END LIMITED OFFICIAL USE

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